

Message Text

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PAGE 01 BRASIL 00575 241019Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
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FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 5152

UNCLAS BRASILIA 0575

E.O. 11652: N/A
TAGS: EFIN, BR
SUBJECT: CRUZEIRO DEVALUATION

1. THE CENTRAL BANK ANNOUNCED A MINI-DEVALUATION OF THE CRUZEIRO EFFECTIVE 23 JANUARY. THE NEW CRUZEIRO/DOLLAR RATES ARE BUYING CR16.15 NAD SELLING 16.25, REPRESENTING A 1.254 PERCENT DEPRECIATION. THE INTERVAL SINCE THE LAST CHANGE WAS 35 DAYS.

2. THIS FIRST MODIFICATION OF THE EXCHANGE RATE IN 1978 COULD SUGGEST A SLOWDOWN IN THE RATE OF DEVALUATION. THE MOVEMENT WAS LESS THAN ALL BUT ONE OF THE SPECIFIC CHANGES IN 1977. THE COMPOUNDED ANNUAL RATE IMPLIED BY THIS DEVALUATION WOULD BE LESS THAN 20 PERCENT, COMPARED TO THE ACTUAL DEPRECIATION OF ABOUT 30 PERCENT IN 1977.

3. SOME DECELERATION IN THE RATE OF DEPRECIATION WOULD BE CONSISTENT WITH REDUCED INFLATION (I.E., ANNUAL RATE OF ABOUT 25 PERCENT THE SECOND HALF OF 1977) AND MAY ALSO REFLECT ADJUSTMENT RELATED TO THE RECENT DECLINE OF THE DOLLAR IN RELATION TO SEVERAL MAJOR CURRENCIES. HOWEVER, MAINTENANCE OF THE RATE OF DEVALUATION WILL BE NECESSARY IF GOB IS TO SUSTAIN ITS TRADE SURPLUS
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PAGE 02 BRASIL 00575 241019Z

AND UNDERTAKE IN 1978 AT LEAST TENTATIVE STEPS TOWARD REDUCTION OF EXPORT SUBSIDIES AND IMPORT RESTRICTIONS.
JOHNSON

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NNN

Message Attributes

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Disposition Approved on Date:
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Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
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